

Statement of Mark Clark

before the
Subcommittee on Department Operations,
Oversight, Dairy, Nutrition, and Forestry
House Committee on Agriculture

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I wish to express my appreciation to Rep. Gutknecht and the members of the Subcommittee for this opportunity to express my views on the state of the dairy industry in the Upper Midwest. My name is Mark Clark. My son and I milk about 370 cows in the rolling hills near Rollingstone, Minnesota. I am a delegate in my dairy cooperative which is Land O'Lakes. As a delegate, I am elected by my neighbors to participate in the cooperative's governance system and represent their interests. I also have served on Land O'Lakes Policies & Resolutions Committee, which develops our cooperative's positions on public policy issues that affect dairy farmers, cooperatives, and the U.S. dairy industry.

Personally, I'm optimistic about the Upper Midwest dairy industry. We have a lot of built-in advantages in this region. We have good soils and we generally have ample rainfall, which means we're able to produce good crops of high-quality hay. Our close proximity to the grain-producing regions of the country provides us with ready access to feed ingredients. Historically, milk production has been a mainstay of farmers in this region.

Traditionally, milk produced in the Upper Midwest has primarily been used for processing, and in recent years, cheese has been our primary product. As a result, there's generally strong competition for the milk that's produced here. But as producers, we need to be careful that we don't become complacent and take our strong markets for granted.

While I'm generally optimistic, as Upper Midwest producers, we do face some challenges. Not all of these challenges can be solved by the federal government. But I do want to outline the challenges that I see because I think it's important for you to keep them in mind as you move forward with policy initiatives in Washington, DC.

One of the most difficult problems we face is market volatility. In recent years, we've seen milk prices fluctuate over a wide range. The peaks are higher than we used to see, and

valleys are frighteningly low. We are just coming off of a period of very strong milk prices. During that period of time, we saw producers nationally expand their herds and increase productivity. Milk supply is up, and even though the economy is solid and demand is strong, the increased milk supply is depressing milk prices.

I don't think we're going to see a prolonged downturn in prices like we did in 2002-2003. But milk prices will go low enough to serve as a wake-up call to producers. We do have some tools that can help producers survive this period of low milk prices.

The Dairy Price Support Program has been the foundation of our national dairy policy for decades. It still plays an important role in providing a stabilizing influence when milk prices sink. But frankly, a \$9.90 support price is not an adequate safety net. During the prolonged downturn of 2002-2003, when milk prices hovered near the support level for months, it became clearly evident that we cannot rely solely on the support price program to stabilize milk prices.

One of the most important things that's occurred since the passage of the last farm bill is that more and more producers are learning how to use the futures market to protect themselves from extreme price fluctuations. This has been a good educational experience for producers to gain some knowledge and experience about using risk management tools. To the extent that Congress may consider enhancing risk management as a strategy in the next farm bill, I think that dairy farmers will be much more knowledgeable in their evaluation of different approaches because of the experience we've had in the past several years.

Another component of the milk price safety net has been the Milk Income Loss Contract program. MILC has generated a lot of controversy since it was included in the last farm bill. My cooperative, Land O'Lakes, did support the extension of MILC through the end of the current farm bill. This was a decision that reflected a balance of interests of our co-op members, large

and small, from one region to the next. While support for MILC has been controversial, for Upper Midwest producers, it has generally been a positive program. During the period of time that milk prices were extremely depressed, it provided producers with some breathing room to decide what to do about the future. To the extent that Congress may consider some kind of counter-cyclical payment as part of the dairy program, we certainly would urge following three basic principles – it should not discriminate between producers based on size; it should not discriminate between producers based on geography; and it should not result in distorting market signals or encourage production at a time when milk supply is excessive.

For many producers, one of the most exciting developments in the past few years has been the creation of the CWT program – Cooperatives Working Together. CWT is a modest attempt by the industry to exercise some degree of self-help. Through a voluntary, five-cent per hundredweight contribution, producers through our cooperatives have two tools for influencing market volatility. First, we can influence supply through a herd retirement program. Second, we can try to prevent supply from depressing markets through an export program. I'm very pleased that my cooperative, Land O'Lakes, is one of the largest participants in the CWT export program.

After two years of operation, producers are satisfied enough with the results of CWT to seriously consider increasing the program from a nickel to a dime. Land O'Lakes does support the increased commitment. We're realistic enough to admit that even at 10-cents per hundredweight, CWT will not be able to control extreme milk price volatility all by itself. But that's my real point. A \$9.90 support price can't succeed by itself. Neither can risk management programs, and neither can MILC. As we look to the new farm bill and the future of dairy policy, it seems likely that the solution will require a combination of approaches. There likely won't be a 'one-size-fits-all' dairy program.

While price volatility is one of the most challenging problems that currently faces producers, from a Midwest perspective, one of the least visible problems that's emerging is the change in the dairy marketplace. I mentioned early in my statement that it's easy for Midwest producers to become complacent about our markets. But the indications are that the marketplace is changing.

In the Midwest, our milk plants are being squeezed on both ends. In order to keep the plant full and operate at efficient levels, our plants have to bid up the price of milk. But at some point, the marketplace will not sustain the price that our Midwest plants must pay. This is especially true because of the ability of manufacturing plants in other regions to procure milk at a lower cost than the Midwest. The symptom of this trend is when our Midwest manufacturing plants cannot operate at profitable levels.

For many years, California was the major source of competition for cheese and other manufactured dairy products. California still is a strong competitor. But we are seeing other regions emerge as even more intense competitors in the market for manufactured dairy products.

Last fall, Southwest Cheese Inc. began processing cheese at a huge new facility in New Mexico. And over the winter, Hilmar Cheese Co. announced plans to build a cheese facility in west Texas. Together, these two facilities, if ultimately developed to operate at planned capacity, would produce 15% of the American-style cheese in the country.

This will have a dramatic impact on our Upper Midwest cheese industry. Our plants are older and generally smaller. We will have a difficult time maintaining our market share with California, New Mexico, Texas and any other new, emerging region with rapidly growing milk supplies.

Part of the solution is a state and local concern. We have to adopt new policies at the state and local level that encourage the growth of milk production in the Upper Midwest. We have to redefine public attitudes about modern milk production practices to focus on creation of jobs and economic development. Minnesota and Wisconsin are trying hard to accomplish that task. Both states have either implemented, or are considering, new policies and incentives to reverse the trends and reinvigorate milk production in the Upper Midwest. If we are successful, then long term, I predict that we will see reinvestment in our milk processing industry as well.

But this will take time. Meanwhile, we have to adopt new strategies to sustain our Upper Midwest dairy industry while it grows. We must find ways to add value to existing milk production. This will require new, creative approaches to milk marketing. One promising approach is to encourage the production and marketing of specialty cheeses. Earlier this month, the Wisconsin Department of Agriculture, Trade, and Consumer Protection reported that Wisconsin leads the nation in the production of specialty cheeses. If we cannot compete for the high-volume, commodity cheese market, we should be able to defend a niche market of producing high-value, specialty cheese.

The second strategy for sustaining Midwest milk producers is achieving greater efficiency within our dairy manufacturing infrastructure. Nationally, Cooperatives Working Together has been an effective self-help program for milk supply and export marketing. In the Midwest, we need a regional 'CWT' spirit of cooperation to eliminate duplication in milk procurement and transportation.

Finally, I believe there are opportunities for Midwest producers to supply fluid milk to the Class I market in areas where the local supply is inadequate. In many areas of the Northeast and Southeast, population growth limits the ability of the dairy industry to expand and meet local

Class I needs. With modern transportation capabilities, we can feasibly service those markets from the Midwest more efficiently than from the Western states.

In order for this to work, the federal milk marketing orders have to be flexible enough and adaptable enough to facilitate movement of milk to milk deficit regions. Our Midwest perspective is that we do not want to manipulate the milk marketing orders to the detriment of producers in the East or South. But we do want to be able to supply high-value Class I markets when the local supply is inadequate, and the milk marketing orders should not inhibit that from occurring.

At the beginning of my testimony, I said that I was basically optimistic about the future of the Midwest dairy industry. I believe we have the resources, experience, and capability to be a leader in our national dairy industry. But it will take hard work on the part of producers, cooperatives, and federal policymakers to realize our full potential.

As lawmakers, we simply ask you to support public policies that give us a level playing field and the tools to help ourselves build a promising and prosperous future. Thank you for listening to my comments.